To: Albright, David[Albright.David@epa.gov]
From: Kustic, Tim@DOC
Sent: Mon 5/6/2013 8:43:45 PM
Subject: CIPA

David,

Just an FYI

This is from CIPA's weekly Monday Morning Report:
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CIPA Members Descend on Washington

CIPA members, staff, and lobbyists worked the halls of Congress and various Federal Agencies at last week's CIPA Federal Call-up to warn against the effects of higher taxes on domestic production and increased regulation on hydraulic fracturing. Thirty participants representing CIPA covered meetings with Congressional Committee staff and officials at the Department of Energy, Bureau of Land Management (BLM), Department of Fish and Wildlife, Environmental Protection Agency (EPA) and Bureau of Ocean Energy Management (BOEM).

President Obama has once again proposed a $36.5 billion tax hike on domestic oil and gas production, which he has proposed consistently as part of his budget. CIPA advocates explained how this would impact the financial resources available for new drilling: this would increase our dependence on imported foreign oil at a time when the President is calling for more domestic production. Several of the proposals affect small independent producers exclusively, since major oil companies are excluded from many of the targeted tax provisions.

Specifically, CIPA teams argued against:

<u>Eliminating Expensing of Intangible Drilling Costs (IDC)</u> - IDC were enacted by Congress in 1913 in order to attract capital to the high risk business of oil and natural gas production. The treatment allows an independent to deduct the costs in the year the expenses were incurred, rather than over the productive life of the property through a depreciation allowance. This provision would eliminate $3 billion available for new production.

<u>Eliminating Percentage Depletion</u> - All natural resource minerals are eligible for a percentage depletion income tax deduction. Percentage depletion for oil and natural gas has been in the tax code since 1926. Unlike other resources, natural gas and oil percentage depletion is highly limited, available only to the first 1000 barrels per

day of production from any one producer and limited to 65 percent of the producer's net income. This provision will eliminate $8 billion that would have been available for new production.

Extending Geological and Geophysical Amortization - Currently G&G costs are amortized over a two year period (for larger companies, the period is five years). Extending the amortization period would remove $1 billion from capital available for new production.

Eliminating the Manufacturing Tax Deduction - This provision was enacted by Congress in 2004 to encourage the creation of American jobs. However, the oil and natural gas industry is restricted to a six percent deduction while other industries current enjoy a 9% deduction. Eliminating the deduction altogether would wipe out capital needed for the creation of jobs from new domestic production.

In addition, CIPA took the time to explain issues related to the anticipated BLM draft hydraulic fracturing regulations. Specific examples included issues that are California specific, such as potential conflicts with state law in oilfields that span both private and public lands, broad definition of hydraulic fracturing that could include enhanced oil recovery techniques and basic differences in hydraulic fracturing for oil resources in California as compared to horizontal, multistage hydraulic fracturing for shale gas. Additional issues include BLM lease sales lawsuits and personnel changes.

During the meeting with EPA, several important issues were discussed, including aquifer exemption mapping updates, carbon capture and storage Class 6 wells, and air district non-attainment with the Clean Air Act.

The CIPA Federal Call-Up is an annual event that is a vital part of our Federal advocacy efforts. Please consider joining us for the next Federal Call-Up in the Spring of 2014.

For additional information, please contact Blair Knox. [return to top]"

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